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L36	l34 and l35	170	L36
L35	709.clas.	45626	L35
L34	L33 and shipping	2597	L34
L33	("letter of credit" or bill-of-exchange or invoice)	11523	L33
L32	"letter of credit"	0	L32
L31	(bill-of-exchange or letter-of-credit or proforma with invoice or proforma near invoice)	22	L31
L30	l1 and (shipp$ or freight)	16	L30
L29	709/223	9304	L29
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L26	'5815665'.pn.	1	L26
L25	'5815665'.pn.	1	L25

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L21	'5633934'.pn.	1	L21
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L18	'5986690'.pn.	1	L18
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L17	(bill-of-exchange or letter-of-credit or proforma with invoice or proforma near invoice or import and export with draft)	44	L17
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L16	(bill-of-exchange or letter-of-credit or proforma with invoice or proforma near invoice or import and export with draft)	8	L16
L15	(bill-of-exchange or letter-of-credit or proforma with invoice or proforma near invoice)	7	L15
L14	(bill-of-exchange or letter-of-credit)	7	L14
	DB=EPAB,JPAB; PLUR=YES; OP=OR		
L13	(bill-of-exchange or letter-of-credit)	2	L13
L12	(bill-of-exchange or letter-of-credit or proforma with invoice or proforma near invoice)	2	L12
L11	l1 and 705.clas.	0	L11
L10	l1 and 705/36	0	L10
L9	l1 and 705/35	0	L9
L8	l1 and 705/37	0	L8
L7	l1 and 705/38	0	L7
L6	l3 and 705/38	0	L6
L5	l3 and 705/37	0	L5
L4	L3 and (trad$ or buy$ and sell$)	4	L4
L3	L1 and (product or item or merchandise)	861	L3 all
L2	L1 and (financial or finance) near (trad$ or buy$ and sell$)	1	L2
L1	(bill-of-exchange or letter-of-credit or proforma with invoice or proforma near invoice or draft)	14050	L1

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Methods of Payment

12

Prudent Credit Practices

An experienced exporting firm extends credit cautiously. It evaluates new customers with care and continuously monitors older accounts. Such a firm may wisely decide to decline a customer's request for open account credit if the risk is too great and propose instead payment on delivery terms through a documentary sight draft or irrevocable confirmed letter of credit or even payment in advance. On the other hand, for a fully creditworthy customer, the experienced exporter may decide to allow a month or two to pay, perhaps even on open account.

Other good credit practices include being aware of any unfavorable changes in your customers' payment patterns, refraining from going beyond normal commercial terms, and consulting with your international banker n how to cope with unusual circumstances or in difficult markets. It is always advisable to check a buyer's credit (even if safest payment methods are employed). A Department of Commerce International Company Profile (ICP) (see ***Chapter 5***) provides useful information for credit checks. For a fee, an ICP may be requested on foreign companies in many countries. It contains financial information on the company and a discussion regarding its size, capitalization, years in business, and other information such as citing some U.S. companies that conduct business with the firm. The exporter can then contact the U.S. companies to find out about their payment experience with the foreign firm.

ICPs are not available in every country, and in these instances, EACs can provide a list of private credit reporting services. There are several U.S. companies that compile financial information on foreign firms (particularly larger firms) and make it available to their subscribers. Also, banks are sometimes able to provide credit reports on foreign companies, either through their own foreign branches or through a correspondent bank.

As being paid in full and on time is of the utmost concern to exporters, the level of risk in extending credit is a major consideration. There are several ways in which you can receive payment when selling your products abroad, depending on how trustworthy you consider the buyer to be. Typically with domestic sales, if the buyer has good credit, sales are made on open account; if not, cash in advance is required. For export sales, these ways are not the only common methods. Listed in order from most secure for the exporter to the least secure, the basic methods of payment are:

1. Cash in advance;
2. Documentary letter of credit;
3. Documentary collection or draft;
4. Open account; and
5. Other payment mechanisms, such as consignment sales.

Cash in Advance

Receiving payment by cash in advance of the shipment might seem ideal. In this situation, the exporter is relieved of collection problems and has immediate use of the money. A wire transfer is commonly used and has the advantage of being almost immediate. Payment by check, may result in a collection delay of up to six weeks. Therefore, this method may defeat the original intention of receiving payment before shipment.

Many exporters accept credit cards in payment for exports of consumer and other products, generally of a low follar value, sold directly to the end user. Domestic and international rules governing credit card transactions sometimes differ, so U.S. merchants should contact their credit card processor for more specific information. International credit card transactions are typically done by telephone or fax. Due to the nature of these methods, exporters should be aware of fraud. Merchants should determine the validity of transactions and obtain the proper authorizations.

For the buyer, however, advance payment tends to create cash flow problems, as well as increase risks. Furthermore, cash in advance is not as common in most of the world as it is in the United States. Buyers are often concerned that the goods may not be sent if payment is made in advance. Exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who offer more flexible payment terms.

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Documentary Letters of Credit and Documentary Drafts

Documentary letters of credit or documentary drafts are often used to protect the interests of both buyer and seller. These two methods require that payment be made based on the presentation of documents conveying the title and that specific steps have been taken. Letters of credit and drafts can be paid immediately or at a later date. Drafts that are paid upon presentation are called sight drafts. Drafts that are to be paid at a later date, often after the buyer receives the goods, are called time drafts or date drafts.

Since payment by these two methods is made on the basis of documents, all terms of payment should be clearly specified in order to avoid confusion and delay. For example, "net 30 days" should be specified as "30 days from acceptance." Likewise, the currency of payment should be specified as "US$30,000." International bankers can offer other suggestions.

Banks charge fees - based mainly on a percentage of the amount of payment - for handling letters of credit and smaller amounts for handling drafts. If fees charged by both the foreign and U.S. banks are to be applied to the buyer's account, this should be explicitly stated in all quotations and in the letter of credit.

The exporter usually expects the buyer to pay the charges for the letter of credit, but some buyers may not agree to this added cost. In such cases, the exporter must either absorb the costs of the letter of credit or risk losing that potential sale. Letters of credit for smaller amounts can be somewhat expensive since fees can be high relative to the sale.

Letters of Credit

A letter of credit adds a bank's promise to pay the exporter to that of the foreign buyer *provided* that the exporter has complied with all the terms and conditions of the letter of credit. The foreign buyer applies for issuance of a letter of credit from the buyer's bank to the exporter's bank and therefore is called the applicant; the exporter is called the beneficiary.

Payment under a documentary letter of credit is based on documents, not on the terms of sale or the physical condition of the goods. The letter of credit specifies the documents that are required to be presented by the exporter, such as an ocean bill of lading (original and several copies), consular invoice, draft, and an insurance policy. The letter of credit also contains an expiration date. Before payment, the bank responsible for making payment, verifies that all document conform to the letter of credit requirements. If not, the discrepancy must be resolved before payment can be made and before the expiration date.

A letter of credit issued by a foreign bank is sometimes confirmed by a U.S. bank. This confirmation means that the U.S. bank (the confirming bank), adds its promise to pay to that of the foreign bank (the issuing bank). If a letters of credit is not confirmed, it is advised through a U.S. bank and thus called an advised letter of credit. U.S. exporters may wish to confirm letters of credit issued by foreign banks if they are unfamiliar with the foreign banks or concerned about the political or economic risk associated with the country in which the bank is located. An Export Assistance Center or international banker can assist exporters in evaluating the risks to determine what might be appropriate for specific export transactions.

A letter of credit may either be irrevocable and thus, unable to be changed unless both parties agree; or revocable where either party may unilaterally make changes. A revocable letter of credit is inadvisable as it carries many risks for the exporter.

A change made to a letter of credit after it has been issued is called an amendment. Banks also charge fees for this service. It should be specified in the amendment if the exporter or the buyer will pay these charges. Every effort should be made to get the letter of credit right the first time since these changes can be time-consuming and expensive.

To expedite the receipt of funds, wire transfers may be used. Exporters should consult with their international bankers about bank charges for such services.

A Typical Letter of Credit Transaction

Here are the typical steps of an irrevocable letter of credit that has been confirmed by a U.S. bank:

1. After the exporter and buyer agree on the terms of a sale, the buyer arranges for its bank to open a letter of credit that specifies the documents needed for payment. The buyer determines which documents will be required.

2. The buyer's bank issues, or opens, its irrevocable letter of credit includes all instructions to the seller relating to the shipment.

3. The buyer's bank sends its irrevocable letter of credit to a U.S. bank and requests confirmation. The exporter may request that a particular U.S. bank be the confirming bank, or the foreign bank may select a U.S. correspondent bank.

4. The U.S. bank prepares a letter of confirmation to forward to the exporter along with the irrevocable letter of credit.

5. The exporter reviews carefully all conditions in the letter of credit. The exporter's freight forwarder is contacted to make sure that the shipping date can be met. If the exporter cannot comply with one or more of the conditions, the customer is alerted at once.

6. The exporter arranges with the freight forwarder to deliver the goods to the appropriate port or airport.

7. When the goods are loaded, the freight forwarder completes the necessary documentation.

8. The exporter (or the freight forwarder) presents the documents, evidencing full compliance with the letter of credit terms, to the U.S. bank.

9. The bank reviews the documents. If they are in order, the documents are sent to the buyer's bank for review and then transmitted to the buyer.

10. The buyer (or the buyer's agent) uses the documents to claim the goods.

11. A draft, which accompanies the letter of credit, is paid by the buyer's bank at the time specified or, if a time draft, may be discounted to the exporter's bank at an earlier date.

Example of a Confirmed Irrevocable Letter of Credit

The example of a confirmed irrevocable letter of credit in *figure 13* illustrates the various parts of a typical letter of credit. In this sample, the letter of credit was forwarded to the exporter, The Walton Building Supply Company (A), by the confirming bank, Megabank Corporation (B), as a result of c letter of credit being issued by the Third Hong Kong Bank, Hong Kong (C), for the account of the importer, HHB Hong Kong (D). The date of issue was March 8, 1997 (E), and the exporter must submit the proper documents (e.g., a commercial invoice in one original and three copies) (F) by June 23, 1997 (G) in order for a sight draft (H) to be honored.

Tips on Using a Letter of Credit

- When preparing quotations for prospective customers, exporters should keep in mind that banks pay only the amount specified in the letter of credit - even if higher charges for shipping, insurance, or other factors are incurred and documented.

- Upon receiving a letter of credit, the exporter should carefully compare the letter's terms with the terms of the exporter's pro forma quotation. This step is extremely important, since the terms must be precisely met or the letter of credit may be invalid and the exporter may not be paid. If meeting the terms of the letter of credit is impossible or if any of the information is incorrect or even misspelled, the exporter should contact the customer immediately and ask for an amendment to the letter of credit.

- The exporter must provide documentation showing that the goods were shipped by the date specified in the letter of credit or the exporter

may not be paid. Exporters should check with their freight forwarders to make sure that no unusual conditions may arise that would delay shipment.

- Documents must be presented by the date specified for the letter of credit to be paid. Exporters should verify with their international bankers that there will be sufficient time to present the letter of credit for payment.

- Exporters may request that the letter of credit specify that partial shipments and transshipment will be allowed. Specifying what will be allowed can prevents unforeseen last minute problems.

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Documentary Drafts

A draft, sometimes also called a bill of exchange, is analogous to a foreign buyer's check. Like checks used in domestic commerce, drafts carry the risk that they will be dishonored. However, in international commerce, title does not transfer to the buyer until he pays the draft, or at least engages a legal undertaking that the draft will be paid when due.

Sight Drafts

A sight draft is used when the exporter wishes to retain title to the shipment until it reaches its destination and payment is made. Before the shipment can be released to the buyer, the original ocean bill of lading (the document that evidences title) must be properly endorsed by the buyer and surrendered to the carrier. It is important to note that air waybills of lading, on the other hand, do not need to be presented in order for the buyer to claim the goods. Hence, risk increases when a sight draft is being used with an air shipment.

In actual practice, the ocean bill of lading is endorsed by the exporter and sent via the exporter's bank to the buyer's bank. It is accompanied by the sight draft, invoices, and other supporting documents that are specified by either the buyer or the buyer's country (e.g., packing lists, consular invoices, insurance certificates). The foreign bank notifies the buyer when it has received these documents. As soon as the draft is paid, the foreign bank turns over the bill of lading thereby enabling the buyer to obtain the shipment.

There is still some risk when a sight draft is used to control transferring the title of a shipment. The buyer's ability or willingness to pay might change from the time the goods are shipped until the time the drafts are presented for payment; there is no bank promise to pay standing behind the buyer's obligation. Additionally, the policies of the importing country could also change. If the buyer cannot or will not pay for and claim the goods, returning or disposing of the products becomes the problem of the exporter.

Time Drafts and Date Drafts

A time draft is used when the exporter extends credit to the buyer. The draft states that payment is due by a specific time after the buyer accepts the time

draft and receives the goods (e.g., 30 days after acceptance). By signing and writing "accepted" on the draft, the buyer is formally obligated to pay within the stated time. When this is done the time draft is then called a trade acceptance. It can be kept by the exporter until maturity or sold to a bank at a discount for immediate payment.

A date draft differs slightly from a time draft in that it specifies a date on which payment is due, rather than a time period after the draft is accepted. When either a sight draft or time draft is used, a buyer can delay payment by delaying acceptance of the draft. A date draft can prevent this delay in payment though it still must be accepted.

When a bank accepts a draft, it becomes an obligation of the bank and thus, a negotiable investment known as a banker's acceptance. A banker's acceptance can also be sold to a bank at a discount for immediate payment.

Open Account

In a foreign transaction, an open account can be a convenient method of payment if the buyer is well established, has a long and favorable payment record, or has been thoroughly checked for creditworthiness. With an open account, the exporter simply bills the customer, who is expected to pay under agreed terms at a future date. Some of the largest firms abroad make purchases only on open account.

However, there are risks to open account sales. The absence of documents and banking channels might make it difficult to pursue the legal enforcement of claims. The exporter might also have to pursue collection abroad, which can be difficult and costly. Another problem is that receivables may be harder to finance, since drafts or other evidence of indebtedness are unavailable. There are several ways to reduce credit risk,through such means as export credit insurance and factoring (see ***Chapter 13***).

Exporters contemplating a sale on open account terms should thoroughly examine the political, economic, and commercial risks. They should also consult with their bankers if financing will be needed for the transaction before issuing a pro forma invoice to a buyer.

Other Payment Mechanisms

Consignment sales

International consignment sales follow the same basic procedures as in the United States. The goods are shipped to a foreign distributor who sells them on behalf of the exporter. The exporter retains title to the goods until they are sold, at which point payment is sent to the exporter. The exporter has the greatest risk and least control over the goods with this method. Additionally, receiving payment may take quite a while.

It is wise to consider risk insurance with international consignment sales. The contract should clarify who is responsible for property risk insurance that will

cover the merchandise until it is sold and payment is received. In addition, it may be necessary to conduct a credit check on the foreign distributor.

Countertrade

International countertrade is a trade practice whereby one party accepts goods, services, or other instruments of trade in partial or whole payment for its products. This type of trade fulfills financial, marketing, or public policy objectives of the trading parties. For example, a firm might trade by bartering because it or its trading partner lacks foreign exchange.

Many U.S. exporters consider countertrade a necessary cost of doing business in markets where U.S. exports would otherwise not be sold. One consideration for smaller firms is that this type of trade may cause cash flow problems. Therefore, many smaller exporters do not consider this an option as they wish to do business in U.S. dollars.

There are several types of countertrade, including counterpurchase and barter. Counterpurchase is quite common. In this situation, exporters agree to purchase a quantity of goods from a country in exchange for that country's purchase of the exporter's product. These goods are typically unrelated but have an equivalent value. Another form of this practice is contractually linked, parallel trade transactions that each involve a separate financial settlement. For example, a countertrade contract may provide that the U.S. exporter will be paid in a convertible currency as long as the U.S. exporter (or another entity designated by the exporter) agrees to purchase a related quantity of goods from the importing country.

Barter arrangements in international commerce are not as common, because the parties' needs for the goods of the other seldom coincide and because valuation of the goods may be problematic. This type of countertrade occurs without money exchanging hands as merchandise is traded directly for other merchandise or services. Barter might occur by swapping (one good for another) or by switching (using a chain of buyers and sellers in different markets to barter).

U.S. exporters can take advantage of countertrade opportunities by trading through an intermediary with countertrade expertise, such as an international broker, an international bank, or an export management company. One drawback to this type of exporting is that there are often higher transaction costs and greater risks than with other kinds of export transactions.

The Department of Commerce can advise and assist U.S. exporters on countertrade requirements. The Financial Services and Countertrade Division of ITA's Office of Finance, monitors countertrade trends, disseminates information (including lists of potentially beneficial countertrade opportunities), and provides general assistance to enterprises seeking barter and countertrade opportunities. For more information, contact the Financial Services and Countertrade Division/Office of Finance, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230; telephone 202-482-4471.

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Foreign Currency

A buyer and a seller who are in different countries rarely use the same currency. Payment is usually made in either the buyer's or the seller's currency or in a third mutually agreed-upon currency.

One of the risks associated with foreign trade is the uncertainty of the future exchange rates. The relative value between the two currencies could change between the time the deal is concluded and the time payment is received. If the exporter is not properly protected, a devaluation or depreciation of the foreign currency could cause the exporter to lose money. For example, if the buyer has agreed to pay 500,000 French francs for a shipment and the franc is valued at 20 cents, the seller would expect to receive US$100,000. If the franc later decreased in value to be worth 19 US cents, payment under the new rate would be only US$95,000, a loss of US$5,000 for the seller. On the other hand, if the foreign currency increases in value the exporter would get a windfall in extra profits. Nonetheless, most exporters are not interested in speculating on foreign exchange fluctuations and prefer to avoid risks.

One of the simplest ways for a U.S. exporter to avoid this type of risk is to quote prices and require payment in U.S. dollars. Then the burden of exchanging currencies and risk are placed on the buyer. Exporters should also be aware if there are problems with currency convertibility. Not all currencies are freely or quickly converted into U.S. dollars. Fortunately, the U.S. dollar is widely accepted as an international trading currency, and American firms can often secure payment in dollars.

If the buyer asks to make payment in a foreign currency, the exporter should consult an international banker before negotiating the sales contract. Banks can offer advice on the foreign exchange risks that exist with a particular currency. Some international banks can also help hedge against such a risk, by agreeing to purchase the foreign currency at a fixed price in dollars, regardless of the currencies value at the time the customer pays. Banks will normally charge a fee or discount the transaction for this service. If this mechanism is used, the bank's fee should be included in the price quotation.

Payment Problems

In international trade, problems involving bad debts are more easily avoided than rectified after they occur. Credit checks and the other methods that have been discussed in this chapter can limit the risks. Nonetheless, just as in a company's domestic business, exporters occasionally encounter problems with buyers who default on their payment. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the exporter has insurance to cover commercial credit risks, a default by a buyer still requires the time, effort, and cost of the exporter to collect a payment. The exporter must exercise normal business prudence in exporting and exhaust all reasonable means of obtaining payment before an insurance claim is honored. Even then there is often a significant delay before the insurance payment is made.

The simplest (and least costly) solution to a payment problem is to contact and negotiate with the customer. With patience, understanding, and flexibility, an exporter can often resolve conflicts to the satisfaction of both sides.

This point is especially true when a simple misunderstanding or technical problem is to blame and there is no question of bad faith. Even though the exporter may be required to compromise on certain points - perhaps even on

the price of the committed goods - the company may save a valuable customer and profit in the long run.

However, if negotiations fail and the sum involved is large enough to warrant the effort, a company should obtain the assistance and advice of its bank, legal counsel, and other qualified experts. Since arbitration is often faster and less costly, this step is preferable to legal action if both parties can agree to take their dispute to an arbitration agency. The International Chamber of Commerce handles the majority of international arbitration and is usually acceptable to foreign companies because it is not affiliated with any single country. For information contact the vice president for arbitration, U.S. Council of the International Chamber of Commerce, telephone 212-354-4480.

Figure 12 - Sample Draft Transmittal Letter

Figure 13 - Sample Confirmed Irrevocable Letter of Credit

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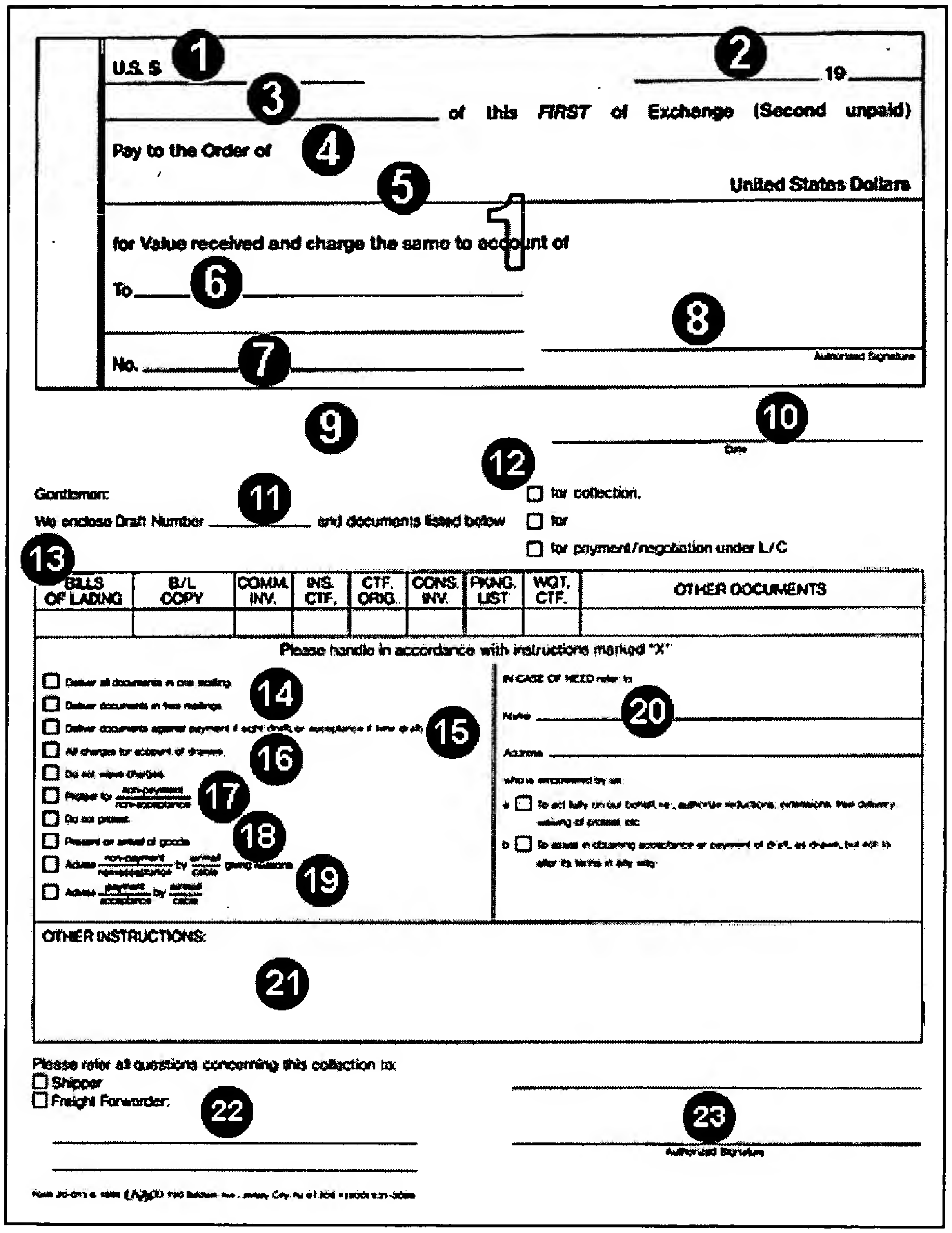
Figure 12

Sample Draft/Transmittal Letter



1. **U.S. DOLLARS** - Enter the entire amount to be collected; if not in U.S. dollars, specify currency.

2. **DATE** - Enter the date the Draft is issued.

3. **OF THIS FIRST EXCHANGE (SECOND UNPAID)** - Enter the terms of payment (also called the Tenor of the draft): at 45 Days, at Sight, At 30 days B/L, etc. "Second Unpaid" refers to the duplicate copy of the draft (OF THIS SECOND EXCHANGE, FIRST UNPAID); once payment has been made against either copy, the other becomes void.

4. **PAY TO THE ORDER OF** - Enter the name of the party to be paid (Seller, "Payee"); this may be the the Seller of the Seller's bank, and will be the party to whom the foreign Buyer's bank will remit payment.

5. **UNITED STATES DOLLARS** - Enter the amount from Field 1 in words; if payment is not to be made in U.S. Dollars, block out "United States Dollar" and enter correct currency.

6. **CHARGE TO ACCOUNT OF** - Enter the name and address of the paying party (Buyer, "Drawee"). For Letter of Credit payments, enter the name and address of the Buyer's opening bank as well as the L/C number and issue date.

7. **NUMBER** - Enter an identification, or Draft, number, as assigned by the Seller to reference the

transaction.

8. **AUTHORIZED SIGNATURE** - The signature of the authorized individual for the Seller or the seller's agents ("Drawer").

9. **FORWARD DRAFT TO** - Enter the name and address to whom the Draft is being sent. Unless this is a letter of credit being negotiated in the U.S., this should be the name and address of a foreign bank.

10. **FORWARDING DATE** - Enter the date the Draft is being sent to the bank in Field 9.

11. **DRAFT NUMBER** - Enter the Seller's Draft number, as noted in Field 7 above.

12. **PURPOSE OF DRAFT** - Check the applicable box if the draft is part of letter of credit negotiation, a collection, or an acceptance.

13. **LIST OF DOCUMENTS** - Enter the number and type of each original and duplicate document to be included with this Transmittal Letter. Any document attached will eventually be released to the Buyer.

14. **DELIVER ALL DOCUMENTS** - Check either "Deliver all documents in one mailing" or "Deliver documents in two mailings." Generally, documents are delivered in one mailing.

15. **DELIVER DOCUMENTS AGAINST** - Ensure that the type of Draft attached (Block 3) is compatible with the "deliver against" instructions. Sight Drafts should accompany "Deliver against Payment" instructions, while Time Drafts should accompany "Deliver against Acceptance" instructions.

16. **BANK CHARGES** - The correspondent bank will not pay unless all charges are collected. Based on your agreement with the Buyer, indicate which party is responsible for both the remitting and presenting bank's charges. By checking "all charges for Account of Drawee," the Buyer is responsible for these charges; if the Buyer does not pay (or is not to pay) these charges, and id "Do Not Waive Charges" has *not* been checked, the Seller will be billed for expenses incurred.

17. **PROTEST** - Check "Protest" (specify "for nonpayment" or for "non-acceptance," depending on the type of draft attached - see instruction, Field 15) if you wish the correspondent bank to process written, notarized documentation in event that the Buyer refuses to pay or accept the Draft. Additional Bank expenses associated with a protest are usually charged to the Seller.

18. **PRESENT ON ARRIVAL** - Check if you wish the Draft to be presented on the arrival of the goods to the Buyer.

19. **ADVISE** - Check the appropriate blocks, and block-out the non-applicable terms, if you wish to be advised of payment/acceptance or non-payment or non-payment/non-acceptance.

20. **IN CASE OF NEED** - Enter the representative of the Seller in the country to which the Draft and documents are going, if one exists; check the block which describes the representative's authority.

21. **OTHER INSTRUCTIONS** - Enter any instructions to either the remitting or correspondent banks, such as remittance instructions, clarification of protest procedures, multiple-draft instructions, etc.

22. **REFER ALL QUESTIONS** - Enter the name of the contact, and his/her address & telephone number, in the Seller's country; specify if this contact is employed by the Shipper (Seller) or the Seller's agent (Freight Forwarder).

23. **AUTHORIZATION** - Enter the person authorized to sign the Transmittal Letter (see Field 8 above), the date prepared, and the authorized person's signature.

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Figure 13

Sample Irrevocable Letter of Credit

INTERNATIONAL BANKING GROUP
ORIGINAL

Megabank Corporation
P.O. BOX 1000, ATLANTA, GEORGIA 30302-1000
CABLE ADDRESS: MegaB
TELEX NO. 1234567
SWIFT NO. MBBABC 72

OUR ADVICE NUMBER: EA00000091
ADVICE DATE: 08MAR97
ISSUE BANK REF: 3312/HBI/22341
EXPIRY DATE: 23JUN97

****AMOUNT****
USD****25,000.00

BENEFICIARY:
THE WALTON SUPPLY CO.
2356 SOUTH N.W. STREET
ATLANTA, GEORGIA 30345

APPLICANT:
HHB HONG KONG
34 INDUSTRIAL DRIVE
CENTRAL, HONG KONG

WE HAVE BEEN REQUESTED TO ADVISE TO YOU THE FOLLOWING LETTER OF CREDIT AS ISSUED BY:
THIRD HONG KONG BANK
1 CENTRAL TOWER
HONG KONG

PLEASE BE GUIDED BY ITS TERMS AND CONDITIONS AND BY THE FOLLOWING:
CREDIT IS AVAILABLE BY NEGOTIATION OF YOUR DRAFT(S) IN DUPLICATE AT SIGHT FOR 100 PERCENT OF INVOICE VALUE DRAWN ON US ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. SIGNED COMMERCIAL INVOICE IN 1 ORIGINAL AND 3 COPIES.
2. FULL SET 3/3 OCEAN BILLS OF LADING CONSIGNED TO THE ORDER OF THIRD HONG KONG BANK, HONG KONG NOTIFY APPLICANT AND MARKED FREIGHT COLLECT.
3. PACKING LIST IN 2 COPIES.

EVIDENCING SHIPMENT OF: 5000 PINE LOGS – WHOLE – 8 TO 12 FEET
FOB SAVANNAH, GEORGIA

SHIPMENT FROM: SAVANNAH, GEORGIA TO: HONG KONG
LATEST SHIPPING DATE: 02JUN97

PARTIAL SHIPMENTS NOT ALLOWED TRANSHIPMENT NOT ALLOWED

ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARYS ACCOUNT.
DOCUMENTS MUST BE PRESENTED WITHIN 21 DAYS FROM B/L DATE.

AT THE REQUEST OF OUR CORRESPONDENT, WE CONFIRM THIS CREDIT AND ALSO ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED BY US.

PLEASE EXAMINE THIS INSTRUMENT CAREFULLY. IF YOU ARE UNABLE TO COMPLY WITH THE TERMS OR CONDITIONS, PLEASE COMMUNICATE WITH YOUR BUYER TO ARRANGE FOR AN AMENDMENT.

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Methods of Payment

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Financing Export Transactions

Export financing is often a key factor in a successful sale. Contract negotiation and closure are important, but at the end of the day, your company must get paid.

Exporters naturally want to get paid as quickly as possible, while importers usually prefer to delay payment until they have received or resold the goods. Because of the intense competition for export markets, being able to offer attractive payment terms customary in the trade is often necessary to make a sale. Exporters should be aware of the many financing options open to them so that they choose the most acceptable one to both the buyer and the seller. In many cases, government assistance in export financing for small and medium-sized businesses can increase a firm's options. The following factors are important to consider in making decisions about financing:

- **The need for financing to make the sale.** In some cases, favorable payment terms make a product more competitive. If the competition offers better terms and has a similar product, a sale can be lost. In other cases, the buyer may have preference for buying from a particular exporter, but might buy your product because of shorter or more secure credit terms.

- **The length of time the product is being financed.** This determines how long the exporter will have to wait before payment is received and influences the choice of how the transaction is financed.

- **The cost of different methods of financing.** Interest rates and fees vary. Where an exporter can expect to assume some or all of the financing costs, their effect on price and profit should be well understood before a pro forma invoice is submitted to the buyer.

- **The risks associated with financing the transaction.** The riskier the transaction, the harder and more costly it will be to finance. The political and economic stability of the buyer's country can also be an issue. To provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment, a letter of credit (possibly confirmed), or export credit insurance or guarantee.

- **The need for pre-shipment finance and for post-shipment working capital.** Production for an unusually large order, or for a surge of orders, may present unexpected and severe strains on the exporter's working capital. Even during normal periods, inadequate working capital may curb an exporter's growth. However, assistance is available through public and private sector resources discussed in this chapter.

For help in determining which financing options may be available or the most beneficial to your exporting endeavors, the following sources may be consulted:

- Your banker;

- Your local Department of Commerce Export Assistance Center (EAC);
- Your local Small Business Administration office;
- The Export-Import Bank in Washington, D.C. and selected cities; and
- Your state export promotion or export finance office.

Extending Credit to Foreign Buyers

Foreign buyers often press exporters for longer payment periods. While it is true that liberal financing is a means of enhancing export competitiveness, exporters need to weigh carefully the credit or financing they extend to foreign customers. Moreover, the extension of credit by the seller to the buyer is more common outside the United States. U.S. sellers who are reluctant to extend credit may face the possibility of the loss of the sale to their competitors.

A useful guide for determining the appropriate credit period is the normal commercial terms in the exporter's industry for internationally traded products. Buyers generally expect to receive the benefits of such terms. For off-the-shelf items like consumer goods, chemicals, and other raw materials, agricultural commodities, and spare parts and components, normal commercial terms raange with few exceptions from 30 to 180 days. (An allowance may have to be made for longer shipment times than are found in domestic trade, because foreign buyers are often unwilling to have the credit period start before receiving the goods.) Custom-made or high-value capital equipment, on the other hand, may warrant longer repayment periods. Once credit terms are extended to a buyer, they tend to be precedent for future sales, so the exporter should review with special care any credit terms extended to first-time buyers.

Exporters should follow the same careful credit principals they follow for domestic customers. An important reason for controlling the credit period is the cost incurred through use of working capital or through interest and fees. If the buyer is not responsible for paying these costs, then the exporter should factor them into the selling price. The exporter also should recognize that longer credit periods may increase any risk of default. (***Chapter 12*** described ways to minimize financial risk and still extend export credit abroad; some U.S. Government programs described in this chapter may be helpful as well.) Thus, the exporter must exercise judgement in balancing competitiveness against consideration of cost and safety.

Customers are frequently charged interest on credit periods of a year or longer but less frequently on short-term credit (up to 180 days). Most exporters absorb interest charges for short-term credit unless the customer pays after the due date.

Obtaining cash immediately is usually a high priority with exporters. Converting export receivables to cash at a discount with a bank is one way to do so. Another way is to expand working capital resources. A third approach, suitable when the purchase involves capital goods and the repayment period extends a year or longer, is to arrange for third-party financing. An example of this is a bank making a loan directly to the buyer for the product, with the exporter being paid immediately from the loan proceeds while the bank waits for payment and earns interest. A fourth possibility, when financing is difficult to obtain, is to engage in countertrade to afford the customer an opportunity to generate earnings with which to pay for the purchase (see ***Chapter 12***).

These options may involve the payment of interest, fees, or other costs by the exporter.

Some options are more feasible when the amounts are in larger denominations. Exporters should also determine whether they incur financial liability should the buyer default.

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Commercial Banks

The same commercial bank facilities used to finance domestic activities, including revolving lines of credit for working capital, are often sought to finance export sales until payment is received. Banks do not regularly extend financing solely on the basis of an individual order as they prefer to establish an ongoing business relationship.

A logical first step for an exporter seeking to finance short-term export sales is to approach the local commercial bank with which it already does business. If the bank previously has extended credit to the exporter, the bank will be familiar with the exporter's financial standing, credit need, repayment record, and ability to perform. The bank may be willing to raise the overall limit on an existing working capital line of credit, expand its scope to cover export transactions, or approve a separate line specifically adapted to export-related transactions such as discounting.

Alternatively, the exporter may wish to approach a commercial bank with an international department. Such a bank will be familiar with export business and also be in a position to provide international banking services related to documentary collections and letters of credit, including the discounting of drafts. An intermediate approach is to retain a relationship with the exporter's bank, but seek a referral to a correspondent bank that has an international department.

The exporter should visit the bank's international department, to discuss export plans, available banking facilities, and applicable charges. The exporter may wish to inquire about such matters as: fees for amending or confirming a letter of credit; processing drafts; and about the bank's experience in working with U.S. Government agencies that offer export financing assistance. Generally, the bank's representative handing the exporter's account will not be lodged in the international department. It is in the exporter's best interest to create and foster a close working relationship with the international department.

The responsibility for repaying a working capital loan ordinarily rests with the exporter, even if the foreign buyer fails to pay. The bank takes this contingency into account in deciding on an export working capital line of credit. It is to the benefit of the bank and the exporter to improve the quality of the export receivables by using letters of credit (see ***Chapter 12***), by making use of credit insurance, or by using Export-Import Bank or Small Business Administration working capital guarantees.

An exporter shipping capital goods may want the commercial bank to make medium-term loans directly to the foreign buyer to finance the sale. Such loans are available for well-established foreign buyers in more stable markets, but where there is an element of risk, the bank may require a standby letter of credit, recourse on the exporter in case of default, or similar repayment reinforcement. The exporter should be knowledgeable about loans from his own bank with Export-Import Bank medium- and long-term export guarantee programs, assuming that the commercial bank is willing to utilize them.

Discounting and Banker's Acceptances

A time draft under an irrevocable letter of credit confirmed by a U.S. bank presents relatively little risk of default, so an exporter may be willing to hold such a draft until it

matures. Unless the exporter has ample funds needed for other purposes, holding drafts will use up working capital.

As another course of action, the exporter's bank may be willing to buy, or lend against, time drafts from an exporter that a creditworthy foreign buyer has accepted or agreed to pay at a specified future date. This in effect converts the time draft into immediate cash. The amount received by the exporter is less than the face value of the draft. The difference, called a "discount," represents interest and fees that the bank charges for holding the draft until maturity. The bank may also require the exporter to reimburse the bank in case the draft is unpaid at the due date.

In a third instance, a commercial bank may undertake to accept the obligation of paying a draft for a fee; this is called a banker's acceptance. Banker's acceptances are usually in large denominations. Only a few well-known banks are accepted in the market as "prime-name" banks for purposes of creating banker's acceptances.

Other Private Sources

Factoring, Forfaiting, and Confirming

Factoring is the discounting of a foreign account receivable that does not involve a draft. The exporter transfers title to its foreign accounts receivable to a factoring house (an organization that specializes in the financing of accounts receivable) for cash at a discount from the face value. Although factoring is sometimes done without recourse to the exporter, the specific arrangements should be verified by the exporter. Factoring of foreign accounts receivable is less common than factoring of domestic receivables.

Forfaiting is the selling, at a discount, of longer term accounts receivable or promissory notes of the foreign buyer. These instruments may also carry the guarantee of the foreign government. Both U.S. and European forfaiting houses, which purchase the instruments at a discount from the exporter, are active in the U.S. market. Because forfaiting may be done either with or without recourse to the exporter, the specific arrangements should be verified by the exporter.

Confirming is a financial service in which an independent company confirms an export order in the seller's country and makes payment for the goods in the currency of that country. Among the items eligible for confirmation (and thereby eligible for credit terms) are the goods themselves; inland, air, and ocean transportation costs; forwarding fees; custom brokerage fees; and duties. For the exporter, confirming means that the entire export transaction from plant to end user can be fully coordinated and paid for over time. Although confirming is common in Europe, it is still in its infancy in the United States.

These three financing options are less frequently encountered and less widely available than commercial bank financing. Nevertheless, where offered locally, they help fill a financing gap for exporters.

Export Intermediaries

In addition to acting as export representatives, many export intermediaries, such as export trading companies (ETCs) and export management companies (EMCs), can help finance export sales (see ***Chapter 4***. Some of these companies may provide short-term financing or may simply purchase the goods to be exported directly from the manufacturer, thus eliminating any risks associated with the export transaction as well as the need for financing. Some of the larger companies may make countertrade arrangements that

substitute for financing in some cases.

Buyers and Suppliers as Sources of Financing

Foreign buyers of capital goods may make down payments that reduce the need for financing from other sources. In addition, buyers may make progress payments as the goods are completed, which also reduce other financing requirements. Letters of credit that allow for progress payments upon inspection by the buyer's agent or receipt of a statement by the exporter that a certain percentage of the product has been completed are not uncommon.

In addition, suppliers may be willing to offer terms to the exporter if they are comfortable that they will receive payment. Suppliers may be willing to accept assignment of a part of the proceeds of a letter of credit or a partial transfer of a transferable letter of credit. However, some banks allow only a single transfer or assignment of a letter of credit. Therefore, the exporter should investigate the policy of the bank that will be advising or confirming the letter of credit.

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Government Assistance Programs

Several federal government agencies, as well as a number of state and local ones, offer programs to assist exporters with their financing needs. Some are guarantee programs that require the participation of an approved lender; others provide loans or grants to the exporter or a foreign government.

Government programs generally aim to improve exporters' access to credit rather than to subsidize the cost at below-market levels. With few exceptions, banks are allowed to charge market interest rates and fees including fees paid to the government agencies to cover the agencies' administrative costs and default risks.

Government guarantee and insurance programs are used by commercial banks to reduce the risk associated with loans to exporters. Lenders concerned with an exporter's ability to perform under the terms of sale, and with an exporter's ability to be paid, often use government programs to reduce the risks that would otherwise prevent them from providing financing. In other cases, lenders to a foreign buyer of U.S. goods and services are reluctant to provide the financing without support from a U.S. Government agency.

In overview, the Export-Import Bank (Ex-Im Bank) is the federal government's largest and most comprehensive trade finance agency, offering numerous programs to address a broad range of needs and small and medium-sized, as well as large, exporters. Credit insurance protects against default on exports sold under short-term credit. Other guarantee and loan programs extend medium- and long-term credit for durable goods.

Other agencies fill various market niches. The Small Business Administration (SBA) offers programs to address the needs of smaller exporters. The U.S. Department of Agriculture offers several medium- and long-term credit programs to foster agricultural exports. OPIC provides specialized assistance to U.S. firms through its performance bond and contractor insurance programs for U.S. investments abroad that also can be accessed by U.S. exporters. The Trade Development Administration provides grants for project planning activities conducted by U.S. firms and thereby seeks to give a U.S. imprint on project feasibility studies and design (see ***Chapter 5***). The Agency for International Development (AID) provides grants to developing nations that can be used to purchase U.S. goods and

services (see ***Chapter 5***).

Although the Department of Commerce does not offer any financing programs of its own, export counseling is available through its extensive network of EACs (Export Assistance Centers). The following descriptions provide a basic overview of government financing programs.

The Export-Import Bank of the United States

The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. Government agency with the primary purpose of facilitating the export of U.S. goods and services. Ex-Im Bank meets this objective by providing loans, guarantees, and insurance programs on market-related credit terms.

Ex-Im Bank's insurance and guarantee programs are structured to encourage private financial institutions to fund U.S. exports by reducing the commercial risks (such as buyer insolvency and failure to pay) and political risks (such as war and currency inconvertibility) of international trade that could lead to nonpayment of export receivables or debt. The financing made available under Ex-Im Bank's guarantees and insurance is on market terms, and most of the commercial and political risks are borne by Ex-Im Bank.

Ex-Im Bank's loan program, on the other hand, is structured to neutralize interest rate subsidies offered by foreign governments. By responding with its own loan assistance, Ex-Im Bank enables U.S. financing to be competitive on specific sales with that offered by foreign exporters.

Pre-export Financing

The Working Capital Guarantee Program enables lenders to provide financing an exporter needs to purchase or produce a product for export, as well as finance short-term accounts receivable. If the exporter defaults on a loan guaranteed under this program, Ex-Im Bank reimburses the lender for the guaranteed portion - generally, 90 percent of the loan - thereby reducing the lender's overall risk. The Working Capital Guarantee Program can be used either to support ongoing export sales or to meet a temporary cash flow demand arising from a single export transaction.

The loan principal can be up to 100 percent of the value of the collateral put up by the exporter, a relatively generous percentage. Eligible collateral includes foreign receivables, exportable inventory purchased with the proceeds of the loan, and goods in production. The term of the guaranteed line of credit is generally one year, but a longer period of renewals may be arranged.

Post-export Financing

Ex-Im Bank offers commercial and political risk insurance. Under the majority of policies, the insurance protects short-term credit extended for the sale of consumer goods, raw materials, commodities, spare parts, and other items normally sold on terms of up to 180 days. If the buyer fail to pay, Ex-Im Bank reimburses the exporter in accordance with the terms of the policy. Coverage is also available for some bulk commodities sold on 360-day terms and for capital and quasi-capital goods sold on terms of up to five years. Ex-Im Bank insurance is by far the largest federal program supporting short-term export credit.

Ex-Im Bank insurance policies for exporters include the Small Business Policy, Single-Buyer Policy, and Multi-Buyer Policy. Another policy, the Umbrella Policy enables an

administrator to handle most administrative duties for a group of exporters. With prior written approval, an exporter can assign the rights to any proceeds to a lender as collateral for financing.

Ex-Im Bank's policies generally cover up to 100 percent of defaults due to specified political risks, such as war and expropriation, and up to 95 percent due to defaults arising from other commercial risks, such as buyer default and insolvency. Exporters generally must meet U.S. content requirements and, under some policies, must insure all eligible foreign sales.

Ex-Im Bank insurance premiums reflect various risk factors, including length of credit period, payment method, and the country of the buyer. In keeping with insurance principals, Ex-Im Bank seeks a reasonable spread of risk among the different export markets and avoids unduly concentrated credit exposure.

Several private companies also offer export credit insurance covering political and commercial risks. Private insurance is available for established exporters with a proven track record, often at competitive premium rates, although underwriting capacity in particular markets may be limited. Coverage for contract repudiation and wrongful calling of a bid or performance bond may also be available in the private market. Contact an insurance broker for more information.

Under a separate program, Ex-Im Bank offers its guarantee to encourage banks and other lenders to make export loans to creditworthy foreign buyers of U.S. goods and services. Ex-Im Bank's guarantee supports either medium-term financing (one to five years repayment after delivery or equipment installation) or long-term financing (in most cases, over five and up to ten years repayment) for heavy equipment and capital projects such as power plants, telecommunications systems, and transport facilities and equipment. Lenders charge the market rate for interest on the loan. A minimum 15 percent cash payment is required from the buyer; the remaining 85 percent is financed. Ex-Im Bank's guarantee covers 100 percent of the political and commercial of default on the principal on loans. Coverage for the loan's interest is also provided. Ex-Im Bank guarantees loans made in U.S. dollars or any other freely convertible currency. Ex-Im Bank charges a fee for its guarantee depending on the risk it assumes and the duration of the credit.

Ex-Im Bank also extends medium- and long-term loans of its own as an alternative to its guarantees. Ex-Im Bank loans ate made on the same terms and conditions as guarantees, with the important difference that the bank sets the interest rate in accordance with international agreements. Often, an Ex-Im Bank guarantee results in an all-in cost that is lower than an Ex-Im Bank loan. In fiscal year 1996, $1.2 billion in loans and $6 billion in guarantees were approved by Ex-Im Bank.

Ex-Im Bank guarantees and loans, by law, must bear a reasonable assurance of repayment. To satisfy this requirement, Ex-Im Bank takes into consideration the financial soundness of the credit recipient and capacity to repay the export debt supported by Ex-Im Bank. In some cases, Ex-Im Bank may require credit enhancements such as a counter-guarantee by the government or by a creditworthy party. Under Ex-Im Bank's project loan program for major projects lacking a sovereign guarantee, the bank will help develop an appropriate project structure that offers the requisite reasonable assurance of repayment. For more information on Ex-Im Bank's programs, contact the Business Development Group, Export-Import Bank, 811 Vermont Avenue NW, Washington, DC 20571; telephone 202-565-EXIM, or your local Export Assistance Center. Ex-Im Bank also maintains a home page on the World Wide Web at http://www.exim.gov.

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Small Business Administration

The Small Business Administration (SBA) also provides financial assistance to U.S. exporters. SBA targets its assistance to small companies and strives to assist those businesses that otherwise might not be able to obtain trade financing. Applicants must qualify as small businesses under the SBA's size standards and meet other eligibility criteria.

Under SBA's Export Working Capital Program (EWCP), a business can obtain a loan of up to $833,333 from its bank with 90 percent of the loan amount (i.e., up to $750,000) guaranteed by SBA. These loans are available for many business purposes such as plant expansion, equipment purchase, etc., associated with carry out an export transaction. Interest rates are negotiated between the borrower and lender and may be fixed or variable, but are subject to SBA maximums. Depending on the size of the loan, the rate is generally no higher than the prime plus 2.75 percent, and the loan maturities are up to ten years for working capital and up to 25 years for fixed assets. The EWCP uses a one-page application form and streamlined documentation that usually provides a turnaround within ten days. A letter of prequalification is also available. SBA working capital guarantees are limited to $750,000, but larger loans can be financed through the Ex-Im Bank's working capital program.

Under its International Trade Loan program, SBA can guarantee up to $1.25 million in combined working capital and loans for facilities and equipment (including land and buildings; construction of new facilities; renovation, improvement, or expansion of existing facilities; and purchase or reconditioning of machinery, equipment, and fixtures). Applicants must establish either that loan proceeds will enable them to expand significantly existing export markets or develop new ones or that they have been adversely affected by import competition. Interest rates are negotiated with the lender and can be up to 2.25 percent above the prime rate.

Both the EWCP and the International Trade Loan programs are guarantee programs that require the participation of an eligible commercial bank. Most bankers are familiar with SBA's guarantee programs.

In addition to these export-oriented programs, SBA offers a variety of other loan programs that may meet specific needs of small businesses. For example, SBA's contractor bond program may help small exporters obtain bid or performance bonds if the transaction is structured in accordance with SBA requirements. SBA also has a Low Documentation loan program. This service provides loans of up to $100,000 with a minimum of paperwork. The SBA uses a one-page application and relies heavily upon the applicant's character and credit history. However, the borrower must first satisfy all of the lender's requirements. This loan is also obtained through a private lender.

For additional information on SBA's programs, contact the nearest Export Assistance Center, SBA field office, or call 800-U-ASK-SBA. SBA maintains a Web site at: http://www.sba.gov.

Department of Agriculture

The Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture (USDA) provides several programs to assist in the financing of U.S. agricultural goods exports. Two long-established programs guarantee immediate-term irrevocable letters of credit opened by foreign banks and (often)confirmed by U.S. banks.

CCC's traditional export credit guarantee programs are known as GSM-102 (for General Sales Manager) and GSM-103. They are identical except that the permissible repayment period under GSM-102 is up to three years while the permissible repayment period under GSM-103 is up to ten years. GSM-102 is usually associated with grains, fibers, wood products, and similar commodities, while GSM-103 is generally associated with breeding livestock.

CCC periodically announces the availability of GSM-102 or GSM-103 programs through a press release. The announcements are for a specific country or group of countries, a specific dollar amount, and often list eligible agricultural commodities and name specific banks eligible to open the letter of credit. Exporters, foreign buyers, or banks may request CCC to make available its guarantee.

In accordance with the announcement, a U.S. exporter, who must be prequalified by CCC, concludes a firm sales agreement for eligible commodities with the foreign buyer. Arrangement is made for a letter of credit to be opened by an eligible foreign bank that provides for payment to the exporter or assignee within the permissible period of time. The exporter applies for CCC's guarantee which, if approved, covers 98 percent of the principal and part of the interest. The exporter then ships the commodities and obtains documentation to satisfy the letter of credit. The exporter may agree to await payment or, by prearrangement,to receive immediate funding by discounting drafts and assigning the proceeds from the letter of credit to the U.S. bank. The GSM-102 and GSM-103 programs are advantageous in providing longer than usual repayment terms for U.S. agricultural commodities and often a relatively low rate of interest because of the CCC guarantee.

In August 1996, the U.S. Department of Agriculture announced the establishment of a new CCC facility to finance imports: The Supplier Credit Guarantee Program It aims at promoting the export of higher value and value-added agricultural products and also responds to the demand for extending credit directly to a foreign buyer without going through a bank. CCC announces the availability of Supplier Export Credit Guarantees in a particular country or group of countries, following which exporters may apply for CCC's guarantee.

The Supplier Credit Guarantee Program differs from the GSM programs in several important ways:

- The risk of default rests with a foreign importer under the new program. By contrast, the default risk rests with a bank under the GSM programs.
- The guarantee covers only 50 percent of the credit principal and no interest under the new program. By contrast, the GSM programs cover 98 percent of principal and part of interest. CCC indicates the Supplier Credit Guarantee Program's greater risk sharing with the exporter allows CCC to forego a risk analysis of the importer under ordinary circumstances.
- Fees are higher under the new program.
- The repayment period is up to 180 days under the new program. By contrast, the GSM-102 program covers repayment terms of up to three years, and the GSM-103 program covers repayment of up to ten years.

Firms may obtain additional information on these financial programs by contacting the General Sales Manager, Export Credits, Foreign Agricultural Service, 14th Street and Independence Avenue, SW, Washington, DC 20250; telephone 202-720-3224. USDA maintains a Web site on its export credit programs at: http://www.fas.usda.gov/fasprograms.html.

Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) is a federal agency that facilitates U.S. foreign direct investment in developing nations and emerging market economies. OPIC is an independent, financially self-supporting corporation, fully owned by the U.S. government.

OPIC encourages U.S. investment projects overseas by offering political risk insurance, all-risk guarantees, and direct loans. OPIC political risk insurance protects U.S. investment ventures abroad against the risks of civil strife and other violence, expropriation, and inconvertibility of currency. In addition, OPIC can cover business income loss due to political violence or expropriation. Insurance is available up to $200 million per investment, and both debt and equity is eligible for coverage.

OPIC also provides guarantees, limited to $50 million, that protect against both commercial and political risk. Guarantees are available up to $200 million, but cover only debt financing related to the investment. (Guarantees and insurance can be combined for aggregate OPIC support of $400 million.) OPIC extends direct loans that are aimed exclusively toward U.S. small and medium-sized companies investing in projects overseas. OPIC direct loans do not exceed $30 million.

U.S. exporters often can benefit from the construction and equipping of new facilities financed by OPIC, although the recipients of OPIC transactions are U.S. investors. However, U.S. exporters and contractors operating abroad can benefit directly from an OPIC program covering wrongful calling of performance, bid, and down payment bonds and contract repudiation. Under another program, OPIC ensures against expropriation of construction equipment temporarily located abroad, spare parts warehoused abroad, and some cross-border operating and capital loans.

OPIC also provides services to facilitate wider participation by smaller U.S. businesses in overseas investment, including investment missions, a computerized data bank, and investor information services. For more information on any of these programs contact OPIC's InfoLine for program information on 202-336-8799 or FactsLine on 202-336-8700. OPIC maintains a Web site at http://www.opic.gov.

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Multilateral Development Banks

The Multilateral Development Banks (MDBs) are international financial institutuins owned by member governments. Their individual and collective objective is to promote economic and social progress in their developing member countries. The MDBs (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and the World Bank Group) achieve this objective by providing loans, technical cooperation, grants, capital investment, and other types of assistance to governments, government agencies, and other entities in their developing member countries. The practical expression of MDB support usually takes the form of a project or study.

Increasingly, the MDBs are providing funding to private sector entities for private projects in developing countries. A growing number of companies and project developers around the world are taking advantage of this funding, which is secured based on the financial,

economic, and social viability of the projects in question.

The MDBs have been traditionally been heavily involved in infrastructure and poverty-alleviation projects. All of the banks support projects in the following sectors: agriculture, energy, environment, finance, industry, transportation, telecommunications, health, education, urban development, tourism, microenterprise, and public sector, as well as other types of economic reform. All of the banks provide some funding for private ventures.

The design and execution of MDB-financed public sector projects affords lucrative business opportunities for suppliers, consultants, and contractors from MDB member countries. Many of the goods and services required for these projects are procured or purchased through International Competitive Bidding (ICP) or open tendering. These methods require notification to the international community that a contract is being let; the notification is to provide potential bidders with timely and adequate notification of a purchaser's requirements and an equal opportunity to bid.

The MDBs also provide debt, equity, and guarantee financing to eligible private ventures in developing countries. These funds, offered on commercial terms, can be accessed directly by private project sponsors and do not require a government guarantee.

The U.S. Government organization responsible for assisting American businesses pursue MDB opportunities is the Multilateral Development Bank Operations (MDBO) office within the U.S. Department of Commerce's International Trade Administration.

The MDB Counseling Center is the Commerce Department's centralized repository of electronic and hard copy information on MDBs. In addition to basic brochures provided by each of the MDBs, the Counseling Center supplies specific project information and "how to" guides written by MDBO and commercial liaison staff. Additionally, the Counseling Center provides electronic access to MDB information via the Commerce Department's National Trade Data Bank (NTDB). There is a section on the NTDB devoted exclusively to the MDBs, which includes the *Monthly Operational Summary* for each bank. Electronic access to MDB information is also available through MDB's home page, which can be found at http://sites.usatrade.gov/mdbo/. The MDBO home page is linked to the home pages of the various banks. For more information, contact: U.S. Department of Commerce, International Trade Administration, Multilateral Development Banks Operations, 14th Street and Constitution Avenue, NW, Room H-1107, Washington, D.C. 20230; telephone: 202-482-3399, fax: 202-273-0927.

State and Local Export Finance Programs

Several cities and states have funded and operate export financing programs, including preshipment and postshipment working capital loans and guarantees, accounts receivable financing, and export insurance. To be eligible for these programs, an export sale must generally be made under a letter of credit or with credit insurance coverage. A certain percentage of state or local content may also be required. However, some programs may require only that certain facilities, such as a state or local port, be used; therefore, exporters may have several options.

As exporters have several options for financing, they should contact a Department of Commerce EAC (Export Assistance Center) or their state economic development agency for more information.

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Business Travel Abroad

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It is highly recommended that company officials visit the countries to examine the markets where they are considering selling their products before any transaction occurs. As discussed in ***Chapter 2***, many foreign markets can differ greatly from the United States and by visiting a country, a company can familiarize itself with cultural nuances which may impact the design, packaging or advertising of the product. Moreover, traveling abroad allows one to locate and cultivate new customers, as well as improve relationships and communication with current foreign representatives and associates. As in the United States, clients and customers prefer to conduct business in person before concluding a transaction.

Typically, a successful business trip requires months of planning. This chapter focuses on the many steps required before traveling abroad and offers recommendations that will make the trip more successful.

Proper Documentation

All overseas travelers are required to have proper documentation before leaving the United States. Businesspersons are required to have a current U.S. passport, visas from certain host countries and, in some instances, vaccination records. If the company is bringing a product for demonstration or sample purposes, then an **ATA carnet** may also be required. Businesses should allow six to eight weeks to acquire all of these documents.

Carnets: The ATA (Admission Temporaire) Carnet The ATA Carnet is a standardized international customs document used to obtain duty-free temporary admission of certain goods into the countries that are signatories to the ATA Convention. Under the ATA Convention, commercial and professional travelers may take: commercial samples; tools of the trade; advertising material; and cinematographic, audiovisual, medical, scientific, or other professional equipment into member countries temporarily without paying customs duties and taxes or posting a bond at the border of each country to be visited.

The traveler should contact the U.S. Council for International Business to determine if the country to be visited is a member of the ATA Convention. The U.S. Council for International Business will answer questions regarding ATA Carnets and assist U.S. companies with the application. A fee is charged, depending on the value of the goods to be covered. A bond, letter of credit, or bank guaranty of 40 percent of the value of the goods is also required to cover duties and taxes that would be due if goods imported into a foreign country by carnet were not reexported and the duties were not paid by the carnet holder. Carnets are generally valid for 12 months. To receive an application or to ask questions, contact the U.S. Council for International Business, 1212 Avenue of the Americas, New York, NY 10036; telephone 212-354-4480.

Passports: A valid U.S. passport is required for all travel outside the United States and Canada. Passports may be obtained through passport agencies, certain local post offices, and U.S. district courts. Application may be made in person or by mail. A separate passport is needed for each individual who will be traveling. Applicants must provide proof of citizenship, proof of identity, two identical passport photos, a completed application form, and the appropriate fees. The cost is $65 per passport ($40 for travelers under 18). The usual processing time for a passport (including time in the mail) is three weeks, but travelers should apply as early as possible, particularly if time is needed to obtain visas, international drivers licenses, or other documents. Emergency situations can be expedited

within two weeks for an additional $30 and proof of the need for the service. REMINDER: If you have a current passport, make sure that it remains valid for the entire duration of the trip. some countries require that the passport has a validity period of up to one year after travel to the country.

Information is available from the nearest local passport office or by calling the Office of Passport Services in Washington, D.C. (202-647-0518). Individuals can obtain a nationwide listing of government offices which have passport applications or they can download a printable application from the U.S. Department of State homepage at http://travel.state.gov.

Visas: Visas are required by many countries and cannot be obtained through the Office of Passport Services. They are provided by the foreign country's embassy or consulate in the United States for a small fee. The traveler must have a current U.S. passport to obtain a visa; many cases, a recent photo is required. The traveler should allow several weeks to obtain visas, especially if traveling to developing nations. It is important to note that some foreign countries require visas for business travel but not tourist travel. Therefore, when company representatives request visas from a consulate or embassy, they should notify the authorities that they will be conducting business. Business people should check visa requirements each time they travel to a ccountry because regulations change periodically. Contact an Export Assistance Center to learn about documentation requirements for the countries where you will be traveling.

Vaccinations: Requirements for vaccinations differ by country. While there may not be any restrictions on direct travel to and from the United States, there may be restrictions if individuals travel indirectly, by stopping over in one country before reaching their final destination. Vaccinations against typhus, typhoid, and other diseases are advisable even though they are not required. The Center for Disease Control (CDC) maintains a fax-back system and a homepage to advise travelers of current and accurate country and region conditions. To receive a document dial 888-232-3299 and follow the prompts. The CDC internet address is http://www.cdc.gov.

Foreign Customs: Since foreign customs regulations vary widely with each country, travelers are advised to learn in advance the regulations that apply to each country that will be visited. If allowances for cigarettes, liquor, currency, and certain other items, are not taken into account, they can be impounded at national borders. Business travelers that plan to carry product samples with them may be required to pay import duties. In some countries, duties and extensive customs procedures on sample products may be avoided by obtaining an ATA Carnet.

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Planning an Itinerary

Travel Agents: Travel agents can arrange transportation and hotel reservations quickly and efficiently. They can also help plan the itinerary, obtain the best travel rates, explain which countries require visas, advise on hotel rates and locations, and provide other valuable services. Since travel agents' fees are paid by the hotels, airlines, and other carriers, this assistance and expertise may be free to the traveler.

A well-planned itinerary enables a traveler to make the best possible use of time abroad. Although it is expensive to travel and a businessperson's time is valuable, an overloaded schedule can be counterproductive. Two or three definite appointments, confirmed well in advance and spaced comfortably throughout a day, are more productive and enjoyable than a crowded agenda that forces the businessperson to rush from one meeting to the

next before business is really concluded. If possible, an extra rest day to deal with jet lag should be planned before scheduled business appointments. The following travel tips should be kept in mind:

- The travel plans should reflect goals and priorities.
- Obtaining names of possible contacts, arranging appointments, and checking transportation schedules should be accomplished before the trip begins. The most important meetings should be confirmed before leaving the United States. The Department of Commerce can offer assistance through programs such as the Gold Key Service. Refer to ***Chapter 13*** for additional information.
- As a general rule, the businessperson should keep the schedule flexible enough to allow for both unexpected problems (such as transportation delays) and unexpected opportunities. For instance, accepting an unscheduled luncheon invitation from a prospective client should not make it necessary to miss the next scheduled meeting.
- The traveler should confirm the normal work days and business hours in the countries being visited. In many Middle Eastern regions, for instance, the work week typically runs from Saturday to Thursday. Moreover, lunch hours of two to four hours are customary in many countries.
- Foreign holidays should also be taken into consideration. The Department of Commerce's *Business America* magazine annually publishes a list of holidays observed in countries around the world. Information from this useful schedule, entitled "World Commercial Holidays," can be obtained by contacting the local Export Assistance Center.
- The U.S. traveler should also contact an Export Assistance Center to learn of any travel advisories issued by the U.S. Department of State for countries to be visited. Advisories alert travelers to potentially dangerous in-country situations. The Department of State also maintains a telephone service for recorded travel advisories: 202-647-5225.
- The U.S. business person should be aware that travel from one country to another may be restricted.

Check List for Business Meetings and Travel Abroad

- **Schedule meetings before leaving the United States** - Businesses should determine if an interpreter is required and make all necessary arrangements prior to arriving. REMINDER: Business language is generally more technical than the conversational speech with which many travelers are familiar and mistakes can be costly.
- **Prepare new business cards in proper languages** - In most countries, exchanging business cards at any first meeting is considered a basic part of good business manners. As a matter of courtesy, it is best to carry business cards printed both in English and in the language of the country being visited. Some international airlines can arrange this service.

- **Prepare for adverse weather conditions** - Seasonal weather conditions in the countries being visited are likely to be different than the United States.
- **Address health care issues** - Plan appropriately for prescription drugs, health insurance, vaccinations, diet, and other matters.
- **Electrical current** - A transformer and/or plug adapter may be needed to demonstrate company products and to use personal electrical appliances.
- **Money** - U.S. banks will be able to provide a list of ATMs overseas, exchange rates, and traveler checks.
- **Transportation** - Companies should prepare for any travel in-country via public or private transportation.
- **Communication** - Individuals should leave phone and fax numbers and an itinerary with proper company officials in case of an emergency.
- **Culture** - Individuals should familiarize themselves with basic cultural traits such as hand signals, street signs, and basic courtesy such as tipping.
- **Foreign goods** - Individuals should be aware of U.S. Customs regulations on what can be brought into the United States.

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Assistance from U.S. Embassies and Consulates

Commercial and economic officers in U.S. embassies and consulates abroad provide assistance to U.S. exporters through in-depth briefings and by arranging introductions to appropriate firms, individuals, or foreign government officials. Because of the value and low cost of these services, it is recommended that the exporter contact the local Export Assistance Center before traveling to a foreign country.

When planning a trip, business travelers can discuss their needs and the services available at particular embassies with the staff of the local Export Assistance Center. The business traveler will also find it useful to read the appropriate Country Commercial Guide provided by the Department of Commerce. Additionally, it is advisable to write directly to the U.S. embassy or consulate in the countries to be visited at least two weeks before leaving the United States and to address any communication to the commercial section. The U.S. business traveler should identify his or her business affiliation and complete address and indicate the objective of the trip and the type of assistance required from the post.

Also, a description of the firm and the extent of its international experience would be helpful to the post. Addresses of U.S. embassies and consulates are provided in *Key Officers of Foreign Service Posts*, a publication available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9371; telephone 202-512-1800. The cost for this publication is $5 for one year, and it is issued three times per year.

Cultural Factors

Business executives who hope to profit from their travel should learn about the history, culture, and customs of the countries they wish to visit. Flexibility and cultural adaptation should be the guiding principles for traveling abroad on business. Business manners and methods, religious customs, dietary practices, humor, and acceptable dress vary widely from country to country. It is recommended that business travelers prepare for country visits by reading travel guides, which are located in the travel sections of most libraries and bookstores.

Some of the cultural distinctions that U.S. firms most often face include differences in business styles, attitudes toward development of business relationships, attitudes toward punctuality, negotiating styles, gift-giving customs, greetings, significance of gestures, meanings of colors and numbers, and customs regarding titles. For example, consider the following:

- The head is considered sacred in Thailand so never touch the head of a Thai or pass an object over it.
- The number 7 is considered bad luck in Kenya and good luck in the Czech Republic, and it has magical connotations in Benin. The number 10 is bad luck in Korea, and 4 means death in Japan.
- In Bulgaria a nod means no, and shaking the head from side to side means yes.
- The "okay" sign commonly used in the United States (thumb and index finger forming a circle and the other fingers raised) means zero in France, is a symbol for money in Japan, and carries a vulgar connotation in Brazil.
- The use of a palm-up hand and moving index finger signals "come here" in the United States and in some other countries, but it is considered vulgar in others.

Understanding and heeding cultural variables such as these are critical to success in international business. Lack of familiarity with the business practices, social customs, and etiquette of a country can weaken a company's position in the market, prevent it from accomplishing its objectives, and ultimately lead to failure.

American firms must pay close attention to different styles of doing business and the degree of importance placed on developing business relationships. In some countries, businesspeople have a very direct style, while in others they are much more subtle in style and value the personal relationship more than most Americans do in business. For example, in the Middle East, engaging in small talk before engaging in business is standard practice.

Attitudes toward punctuality vary greatly from one culture to another and, if misunderstood, can cause confusion and misunderstanding. Romanians, Japanese, and Germans are very punctual, whereas people in many of the Latin countries have a more relaxed attitude toward time. The Japanese consider it rude to be late for a business meeting, but acceptable, even fashionable, to be late for a social occasion. In Guatemala, on the other hand, one might arrive any time from ten minutes early to 45 minutes late for a luncheon appointment.

When cultural lines are being crossed, something as simple as a greeting can be misunderstood. Traditional greetings may be a handshake, a hug, a nose rub, a kiss, placing the hands in praying position, or various other gestures. Lack of awareness

concerning the country's accepted form of greeting can also lead to awkward encounters.

People around the world use body movements and gestures to convey specific messages. A misunderstanding over gestures is a common occurrence in intercultural communication, and misinterpretation along these lines can lead to business complications and social embarrassment.

Proper use of names and titles is often a source of confusion in international business relations. In many countries (including the United Kingdom, France, and Denmark) it is appropriate to use titles until use of first names is suggested. First names are seldom used when doing business in Germany. Visiting business people should use the surname preceded by the title. Titles such as "Herr Direktor" are sometimes used to indicate prestige, status, and rank. Thais, on the other hand, address one other by first names and reserve last names for very formal occasions and written communications. In Belgium it is important to address French-speaking business contacts as "Monsieur" or "Madame," while Flemish-speaking contacts should be addressed as "Mr." or "Mrs." To confuse the two is a great insult.

It is also important to understand the customs concerning gift giving. In some cultures, gifts are expected and failure to present them is considered an insult, whereas in other countries offering a gift is considered offensive. Business executives also need to know when to present gifts - on the initial visit or afterwards; where to present gifts - in public or private; what type of gift to present; what color it should be; and how many to present.

Gift giving is an important part of doing business in Japan, where gifts are usually exchanged at the first meeting. In sharp contrast, gifts are rarely exchanged in Germany and are usually not appropriate. Gift giving is not a normal custom in Belgium or the United Kingdom either, although in both countries, flowers are a suitable gift when invited to someone's home.

Customs concerning the exchange of business cards also vary. Although this point seems of minor importance, observing a country's customs for card giving is a key part of business protocol. In Japan, for example, the Western practice of accepting a business card and pocketing it immediately is considered rude. The proper approach is to carefully look at the card after accepting it, observe the title and organization, acknowledge with a nod that the information has been digested, and perhaps make a relevant comment or ask a polite question.

Negotiating is a complex process even between parties from the same nation. It is even more complicated in international transactions because of the potential misunderstandings that stem from cultural differences. It is essential to understand the importance of rank in the other country, to know who the decisionmakers are, to be familiar with the business style of the foreign company, and to understand the nature of agreements in the country, the significance of gestures, and negotiating etiquette.

As illustrated in the examples, it is very important to have a working knowledge of the business culture, management attitudes, business methods, and consumer habits before traveling abroad. This can be accomplished through research or training and is very likely to have a positive impact on overseas travel.

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Selling Overseas

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Many successful exporters first started selling internationally by responding to an inquiry from a foreign firm. Thousands of U.S. firms receive such requests annually, but most firms do not become successful exporters. Generally, successful firms: properly respond to inquiries; conduct research on foreign customers; differentiate between domestic and international sales; build positive relationships with partners.

Responding to Inquiries

Most but not all, foreign letters of inquiry are in English. A firm may look to certain service providers (such as banks or freight forwarders) for assistance in translating a letter of inquiry in a foreign language. Colleges and universities are also an excellent source for translation. Most large cities have commercial translators who are hired on a fee-basis.

Typically, a foreign firm will request product specifications, information, and price. Some inquiries will come directly from the end user, while other inquiries will come from distributors and agents who wish to sell the product in their market. A few foreign firms may already be familiar with the product and wish to immediately place an order.

Regardless of the form such inquiries take, a firm should establish a policy to deal with them. Here are a few suggestions:

- Expect some inquiries to have grammatical or typographical errors, which may result from the writer knowing English only as a second language. Secondly, printing standards differ outside the U.S. so do not consider the quality of the stationery as an indication of the wealth of the company. Despite first impressions, the inquiry may be from a reputable, well-established firm.

- Reply promptly, completely, and clearly. The correspondent naturally wants to know something about the U.S. firm before a transaction takes place. The letter should introduce the firm sufficiently and establish it as a reliable supplier. The reply should provide a short, but adequate introduction to the firm, including bank references and other sources that confirm reliability. The firm's policy on exports should be stated, including cost, terms, and delivery. The firm may wish to respond with a pro forma invoice (see ***Chapter 11***).

- Enclose information on the firm's goods or services.

- Send the reply airmail. Surface mail can take weeks or even months, whereas airmail usually takes only days. If a foreign firm's letter shows both a street address and a post office box, write to the post office box. In countries where mail delivery is unreliable, many firms prefer to have mail sent to the post office box.

- If the company needs to meet a deadline, send the information via fax. Unlike telephone communications, fax may be used effectively despite differences in time zones and languages.

- Set up a file for foreign letters. They may turn into definite prospects as export business grows. If the firm has an intermediary handling exports, the intermediary

may use the file.

Learning about Potential Clients

There are many ways for a U.S. firm to research a foreign company before conducting any formal business. A U.S. company can save time and money by conducting basic research. These methods include:

- ***Business Libraries.*** Several private sector publications list and qualify international firms. There are also many regional and country directories.
- ***International banks.*** Bankers have access to vast amounts of information on foreign firms and are usually very willing to assist corporate customers.
- ***Foreign embassies.*** Foreign embassies are located in Washington, D.C. and some have consulates in other major cities. The commercial (business) sections of most foreign embassies have directories of firms located in their countries.
- ***Sources of credit information.*** Credit reports on foreign companies are available from many private sector sources and the U.S. Foreign Commercial Service For help in identifying sources of credit reports,, contact the nearest Export Assistance Center.

Business Practices in International Selling

Companies should be aware of basic business practices that are paramount to successful international selling. Because cultures vary, there is no single code by which to conduct business. These practices transcend culture barriers and will help the U.S. company conduct business overseas.

- Keep promises. The biggest complaint from foreign importers about U.S. suppliers is failure to ship as promised. A first order is particularly important because it shapes the customer's image of a firm as a dependable or an undependable supplier.
- Be polite, courteous, and friendly. However, it is important to avoid undue familiarity or slang. Some overseas firms feel that the usual brief U.S. business letter is lacking in courtesy.
- Personally sign all letters. Form letters are not satisfactory.

Building a Working Relationship

Once a relationship has been established with an overseas customer, representative, or distributor, it is important that the exporter work on building and maintaining that relationship. Common courtesy should dictate business activity. By following the points outlined in this chapter, a U.S. firm can present itself well. Beyond these points, the exporter should keep in mind that a foreign contact should be treated and served as well

as a domestic contact. For example, the U.S. company should keep customers and contacts notified of all changes, including price, personnel, address, and phone numbers.

Because of distance, a contact can "age" quickly and cease to be useful unless communication is maintained. For many companies, monthly or quarterly visits should be made to customers or distributors. This commitment to the business relationship, although not absolutely necessary, ensures that both the company and the product maintain high visibility in the marketplace. If the U.S. exporting firm cannot afford such frequent travel, it may use fax, e-mail, and telephone to keep the working relationship active and up to date.

After-sales Service

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Quality, price, and service are three factors are critical to the success of any export sales effort. Quality and price are addressed in earlier chapters. Service, which is addressed here, should be an integral part of any company's export strategy from the start. Properly handled, service can be a foundation for growth. Ignored or left to chance, it can cause an export effort to fail.

Service is the prompt delivery of the product. It is courteous sales personnel. It is a user or service manual manual modified to meet your customer's needs. It is ready access to a service facility. It is knowledgeable, cost-effective maintenance, repair, or replacement. Service is location. Service is dealer support.

Service varies by the product type, the quality of the product, the price of the product, and the distribution channel employed. For export products that require no service - such as food products, some consumer goods, and commercial disposables - the issue is resolved once distribution channels, quality criteria, and return policies have been identified.

On the other hand, the characteristics of consumer durables and some consumables demand that service be available. For such products, service is a feature expected by the consumer. In fact, foreign buyers of industrial goods typically place service at the forefront of the criteria they evaluate when making a purchase decision.

All foreign markets are sophisticated, and each has its own expectations of suppliers and vendors. U.S. manufacturers or distributors must therefore ensure that their service performance is comparable to that of the predominant competitors in the market. This level of performance is an important determinant in ensuring a reasonable competitive position, given the other factors of product quality, price, promotion, and delivery.

An exporting firm's strategy and market entry decision may dictate that it does not provide after-sale service. It may determine that its export objective is the single or multiple opportunistic entry into export markets. Although this approach may work in the short term, subsequent product offerings will be less successful as buyers recall the failure to provide expected levels of service. As a result, market development and sales expenditures may result in one-time sales.

Service Delivery Options

Service is an important factor in the initial export sale and ongoing success of products in foreign markets. U.S. firms have many options for the delivery of service to foreign buyers.

A high-cost option - and the most inconvenient for the foreign retail, wholesale, commercial, or industrial buyer - is for the product to be returned to the manufacturing or distribution facility in the United States for service or repair. The buyer incurs a high cost and loses the use of the product for an extended period, while the seller must incur the export cost of the same product a second time to return it. Fortunately, there are practical, cost-effective alternatives to this approach.

If the selected export distribution channel is a joint venture or other partnership

arrangement, the overseas partner may have a service or repair capability in the markets to be penetrated. An exporting firm's negotiations and agreements with its partner should include explicit provisions for repairs, maintenance, and warranty service. The cost of providing this service should be negotiated into the agreement.

For goods sold at retail outlets, a preferred service option is to identify and use local service facilities. Though this requires up-front expenses to identify and train local service outlets, the costs are more than repaid in the long run.

For example, a leading Canadian manufacturer of consumer personal care items uses U.S. distributors and sales representatives to generate purchases by large and small retailers across the United States. The products are purchased at retail by individual consumers. The Canadian firm contracted with local consumer electronic repair facilities in leading U.S. cities to provide service or replacement for its product line. Consequently, the manufacturer can include a certificate with each product listing "authorized" local warranty and service centers.

There are administrative, training, and supervisory overhead costs associated with such a warranty and service program. The benefit, however, is that the company is now perceived to be a local company that competes on equal footing with domestic U.S. manufacturers. U.S. exporters should keep this example in mind when entering foreign markets.

Exporting a product into commercial or industrial markets may dictate a different approach. For the many U.S. companies that sell through distributors, selection of a representative to serve a region, a nation, or a market should be based not only on the distributing company's ability to sell effectively but also on its ability and willingness to service the product.

Assessing that ability to service requires that the exporter ask questions about existing service facilities; about the types, models, and age of existing service equipment; about training practices for service personnel; and about the firm's experience in servicing similar products.

If the product being exported is to be sold directly to end users, service and timely performance are critical to success. The nature of the product may require delivery of on-site service to the buyer within very specific time parameters. These are negotiable issues for which the U.S. exporter must be prepared. Such on-site service may be available from service organizations in the buyer's country; or the exporting company may have to send personnel to the site to provide service. The sales contract should anticipate a reasonable level of on-site service and should include the associated costs. Existing performance and service history can serve as a guide for estimating service and warranty requirements on export sales, and sales can be costed accordingly. This practice is accepted by small and large exporters alike.

At some level of export activity, it may become cost-effective for a U.S. company to establish its own branch or subsidiary operation in the foreign market. The branch or subsidiary may be a one-person operation or a more extensive facility staffed with sales, administration, service, and other personnel, most of whom are local nationals in the market. This high-cost option enables the exporter to ensure sales and service quality, provided that personnel are trained in sales, products, and service on an ongoing basis. The benefits of this option include the control it gives to the exporter and the ability to serve multiple markets in a single region.

Manufacturers of similar or related products may find it cost-effective to consolidate service, training, and support in each export market. Service can be delivered by U.S.-based personnel, a foreign facility under contract, or a jointly owned foreign-based service facility. Despite its cost benefits, this option raises a number of issues. Such joint activity may be interpreted as being in restraint of trade or otherwise market controlling or monopolistic. Exporters that are considering it should therefore obtain competent legal

counsel when developing this joint operating arrangement. Exporters may wish to consider obtaining an export trade certificate of review, which provides limited immunity from U.S. antitrust laws.

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Legal Considerations

Service is a very important part of many types of representation agreements. For better or worse, the quality of service in a country or region affects the U.S. manufacturer's reputation there.

Quality of service also affects the intellectual property rights of the manufacturer. A trademark is a mark of source, with associated quality and performance. If quality control is not maintained, the manufacturer can lose its rights to the product, because one can argue that, within that foreign market, the manufacturer has abandoned the trademark to the distributor.

It is, therefore, imperative that agreements with a representative be specific about the form of the repair or service facility, the number of people on the staff, inspection provisions, training programs, and payment of costs associated with maintaining a suitable facility. The depth or breadth of a warranty in a given country or region should be tied to the service facility to which the manufacturer has access in that market. It is important to promise only what can be delivered.

Another part of the representative agreement may detail the training the exporter will provide to its foreign representative. This detail can include frequency of training, who must be trained, where the training is provided, and which party absorbs travel and per diem costs.

New Sales Opportunities and Improved Customer Relations

Foreign buyers of U.S.-manufactured products typically have limited contact with the manufacturer or its personnel. The foreign service facility is, in fact, one of the major contact points between the exporter and the buyer. To a great extent, the U.S. manufacturer's reputation is made by the overseas service facility.

The service experience can be a positive and reinforcing sales and service encounter. It can also be an excellent sales opportunity if the service personnel are trained to take advantage of the situation. Service personnel can help the customer make life cycle decisions regarding the efficient operation of the product, how to update it for more and longer cost-effective operation, and when to replace it as the task expands or changes. Each service contact is an opportunity to educate the customer and expand the exporter's sales opportunities.

Service is also an important aspect of selling solutions and benefits rather than product features. More than one leading U.S. industrial products exporter sells its products as a "tool to do the job" rather than as a "truck" or a "cutting machine" or "software." Service capability enables customers to complete their jobs more efficiently with the exporter's "tool." Training service managers and personnel in this type of thinking vitalizes service

facilities and generates new sales opportunities.

Each foreign market offers a unique opportunity for the U.S. exporter. Care and attention to the development of in-country sales and distribution capabilities is paramount. Delivery of after-sales service is critical to the near- and long-term success of the U.S. company's efforts in any market.

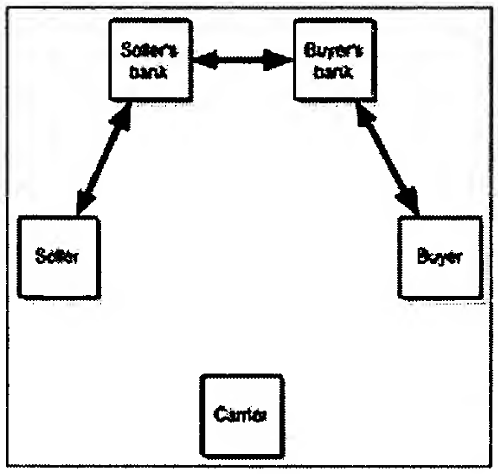
Senior personnel should commit to a program of regular travel to each foreign market to meet with the company's representatives, clients, and others who are important to the success of the firm in that market. Among those persons would be the commercial officer at the Commercial Service's post and representatives of the American Chamber of Commerce and the local chamber of commerce or business association.

The benefits of such a program are twofold. First, executive management learns more about the foreign marketplace and the firm's capabilities. Second, the in-country representative appreciates the attention and understands the importance of the foreign market in the exporter's long-term plans. As a result, such visits help build a strong, productive relationship.

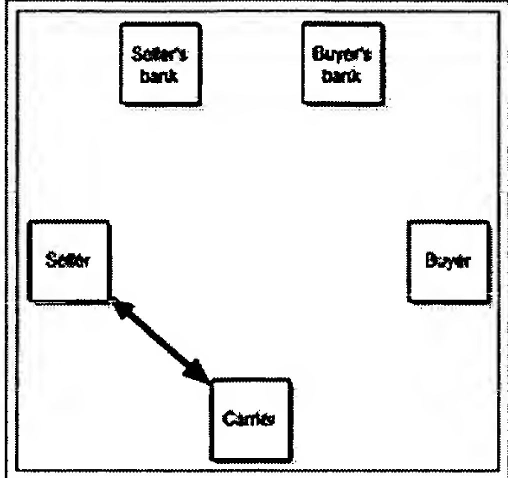
BACK TOP

Letter of credit

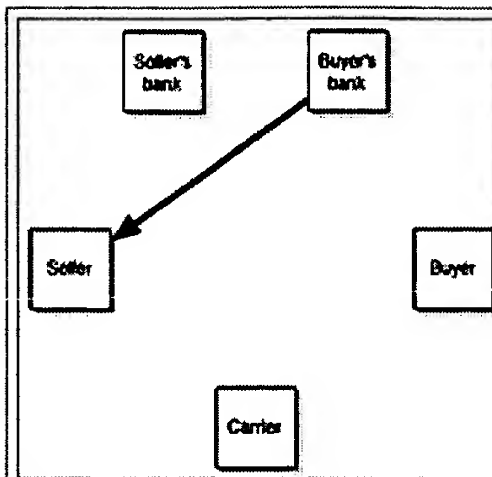
From Wikipedia, the free encyclopedia



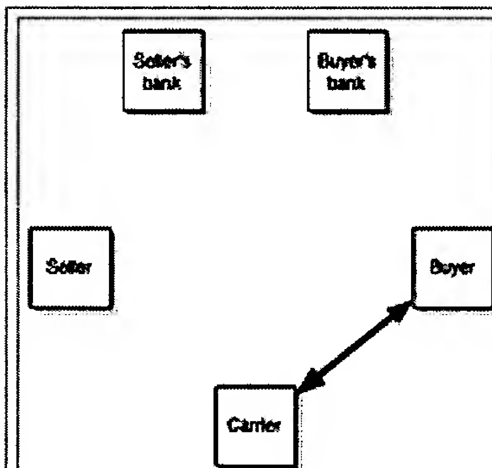
Seller provides bill of lading to bank in exchange for payment. Seller's bank exchanges bill of lading for payment from buyer's bank. Buyer's bank exchanges bill of lading for payment from buyer.



Seller consigns the goods to a carrier in exchange for a bill of lading.



After a contract is concluded between buyer and seller, buyer's bank supplies a letter of credit to seller.



Buyer provides bill of lading to carrier and takes delivery of goods.

A **letter of credit**, often abbreviated as an **LOC** or **LC**, and also referred to as a **documentary credit**, is a document issued by a financial institution which essentially acts as an irrevocable guarantee of payment to a beneficiary. This means, that once the beneficiary has presented to the issuing or negotiating bank documents complying with the LC terms, the bank is obliged to pay irrespective of any instructions of the applicant to the contrary. In other words, the obligation to pay is shifted from the applicant to the LC issuing bank. The LC can also be the source of payment for a transaction, meaning that an exporter will get paid by redeeming the letter of credit. Letters of credit are used nowadays almost exclusively in international trade transactions of significant value, for deals between a supplier in one country and a wholesale customer in another. The parties to a letter of credit are usually a **beneficiary** who is to receive the money, the **issuing bank** of whom the applicant is a client, and the **advising bank** of whom the beneficiary is a client. Since nowadays almost all letters of credit are irrevocable, (i.e. cannot be amended or cancelled without prior agreement of the beneficiary, the issuing bank and the confirming bank, if any), the applicant is not a party to the letter of credit. In executing a transaction, letters of credit incorporate functions common to giros and Traveler's cheques.

How it works

Let us imagine that a business called Acme Electronics from time to time imports computers from a business called Beijing Computers, which banks with the Shanghai Business Bank. Acme holds an account at Commonwealth Financial. Acme wants to buy $500,000 worth of merchandise from Beijing Computers, who agree to sell the goods and give Acme 60 days to pay for them, on the condition that they are provided with a 90-day LC for the full amount. The steps to get the letter of credit would be as follows:

- Acme goes to Commonwealth Financial and requests a $500,000 letter of credit, with Beijing Computers as the beneficiary.
- Commonwealth Financial can issue an LC either on approval of a standard loan underwriting process, or by Acme funding it directly with a deposit of $500,000 plus fees between 1% and 8%.
- Commonwealth Financial sends a copy of the LC to Shanghai Business Bank, which notifies Beijing Computers that payment is ready and they can ship the merchandise Acme ordered with full assurance of payment.
- On presentation of the stipulated documents in the letter of credit and compliance with the terms and conditions of the letter of credit, Commonwealth Financial transfers the $500,000 to Shanghai Business Bank, which then credits the account of Beijing Computers by that amount.
- Note that banks deal only with documents under the letter of credit and not the underlying transaction.

If the stipulated documents are presented and the terms and conditions of the letter of credit are met, then the issuing bank is obligated to pay under the letter of credit, even if the underlying transaction is not fulfilled.

Also the bank is not required to pay if the stipulated documents are not presented or the terms and conditions of the letter of credit are not met, even if the underlying transaction was fulfilled.

The price of LCs

The issuer pays the LC fee to the bank, and may in turn charge this on to the beneficiary. From the bank's point of view, the LC they have issued can be called upon at any time (subject to the relevant terms and conditions), and the bank then looks to reclaim this from the issuer.

There is the chance that the issuer goes insolvent, for example, and thus the bank is unable to claim back the money it has already paid out. This credit risk to the issuer thus makes up a large portion of the cost of issuing LCs.

Other information

Various conditions can be placed on a letter of credit, such as to pay parts of the sum on shipment and/or arrival, or for it to be used simply as a guarantee to obtain payment on an unpaid invoice, or for a revolving credit line where there are regular shipments from a supplier to a customer.

Some letters of credit provide funding by means of drafts issued with the original, which operate like cheques. A beneficiary presented with an LC draft who has questions about it should contact the issuing bank.

The issuance and enforcement of letters of credit are normally subject to publications of the International Chamber of Commerce (ICC) such as UCP, eUCP, ISP98 or ISBP, however a letter of credit may state the conditions that govern its enforcement, including Article 5 of the Uniform Commercial Code (which has been enacted into law throughout the United States); but the extensive use of LC's in international transactions mandates that one contemplating becoming a party to a transaction involving an LC be familiar with the laws of other countries which may have jurisdiction over a dispute.

The current ICC publications cover the following types of transactions.

- UCP - Commercial letters of credit (The most current publication is the UCP 500, however letters of credit can be subject to this publication or earlier publications if so noted in the letter of credit.)
- e-UCP - Commercial letters of credit that allow for electronic presentations
- ISP98 - Standby letters of credit (The UCP may also be used for standby letters of credit, but these practices are not as well suited for a standby letter of credit situation)

- ISBP - This is actually a supplement to the UCP which attempts to standardize banking practices worldwide.

In recent years some financial institutions have begun to offer letter of credit services to their customers. These institutions help to defray the drain on the applicants credit facilities in opening letters of credit.

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Categories: Payment systems | Letters

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Controlling The Letter of Credit Transaction

By Margaret L. Moses
Of Counsel

Exporters expecting to be paid under a letter of credit (referred t "Credit") may be sadly disappointed. Although an LC is considere means of obtaining prompt payment for sale of goods, clients wh made to understand that they can never totally control the paym which are required to be presented under an LC are frequently p may not meet the strict compliance standards required by the ba payment. Sometimes banks which have not properly ensured the reimbursed by their customer (the buyer), have very narrowly a payment. They have been regularly upheld by courts on grounds complied with the terms of the LC.

There are steps, however, that a prudent exporter can take to m process, thereby greatly increasing the likelihood of being paid u first look at the scope of the problem, then discuss a ways of ma process, as well as the legal and economic consequences of losin

THE SCOPE OF THE PROBLEM

It is difficult to obtain information from banks on how o wrong. Since banks are selling a product, it is understan interest on their part in letting the public know how ofte work. A report was put together, however, by Britain's M (MBI) and the Simplification of International Trade Pro which found that during three random weeks, one out of presentations against credits were rejected. It was estima credit business gone wrong in Britain was five billion po ("Euromoney Trade Finance Report", April, 1985.)

In the U.S., the National Council on Trade Documentation showe 77% in Saint Louis, 75% in San Francisco, and for four banks in and 50%. Major companies, with a rejection rate of 49%, were a payment as small organizations. The worst record was held by c the 50 to 100 million dollar range, with a failure rate of 63.3% o

KNOWING THE RULES

To maximize the chance for payment under an LC, a sel
the rules of the game. The rules are codified in a publica
International Chamber of Commerce ("ICC"), known as
Practice for Documentary Credits. The latest version of t
Publication No. 500, 1993 Revision(the UCP 500), whic
1, 1994. Attorneys who advise clients about LC's should
understanding of the UCP 500. (Copies of the UCP 500
Publishing, Inc., 156 Fifth Avenue, Suite 820, New Yorl
206-1150, Fax.: (212) 633-6025)

The rules in the UCP 500 are drafted by and for the banking com
purposes is to protect the banks from liability in LC transactions.
service - the financing of the transaction - and they expect to be
involved in disputes between the parties as to the terms of the c
"the independence principle" is a very important concept in LC tr
the LC, and the documents required under the LC for payment, a
from the underlying transaction between buyer and seller.

The bank is not concerned with whether the contract between bu
performed according to its terms. The bank's only concern is whe
presented by the seller conform to the documents required unde
documents are presented within the required time periods. The b
documents presented under the LC are essentially clerks. Their j
calls, but simply to see if the documents presented by the seller/
with the documents required by the LC. It is therefore very impo
understanding the rules, because a lack of knowledge will only w

CONTROLLING THE PROCESS

Choosing the Issuing Bank

An attorney should encourage clients to try to control the payme
This means that when negotiating with the buyer, the seller shou
a bank of the seller's choice to issue the LC. The seller should fin
preferably a bank with a substantial international presence, what
the country of the buyer. If the buyer can have the LC issued by
process can proceed more expeditiously.

At the very least, the seller should insist that the buyer use a ba
highly regarded by the banking community. The seller's own ban
the financial status and reputation of the foreign bank. Since a m
is that the issuing bank assumes the risk of the buyer's insolven
financially weak, the LC may not serve its purpose.

Confirming the Letter of Credit

If the seller does not have confidence in the bank of the buyer's

question about the political stability of the foreign country where then the LC should be confirmed by a U.S. bank. When a U.S. ba foreign bank, it takes upon itself the payment obligation. Thus, i and subsequently, for political or economic reasons, the foreign I U.S. bank, the U.S. bank is nonetheless on the hook to pay the t

There is a charge for confirmation, which becomes more expensi risk the U.S. bank believes it is taking in confirming the LC. Ther the risk may appear so high that a U.S. bank will not agree to co refuses to confirm because of political instability, advise the clier outside the politically unstable area, in a country such as Switzer pays the U.S. bank's confirmation charges is negotiable, but if n bank will generally charge the beneficiary for this service.

Keeping Documents Simple

The seller should negotiate with the buyer prior to the issuance c documents must be presented to the bank for payment under th thing from the seller's point of view is to have as few documents a description as possible, and to be sure that all documents calle produced. Cases have occurred where one of the documents is a issued by the foreign government, which was simply never prodı created if the LC requires a document to be signed by someone ı The document may not be signed by the right person, or may no

Almost all LC's require production of a commercial invoice and a respect to the commercial invoice, the LC will typically state the must be found in the invoice. If the goods are not described in e: seller may not be paid. In one case where payment was denied, commercial invoice to describe the goods as "100% Acrylic Yarn' presented to the bank, they described the goods as "Imported A packing list attached to the invoice described the goods as 100% the bank's refusal to pay under the LC because the documents d requirements of the LC. *Courtaulds North America, Inc. v. North* F.2d 802 (4th Cir. 1975).

In many cases, even if the documents do not comply exactly, th any discrepancies in the documents, and, if the bank agrees, the *Acrylic Yarn* case above, however, the buyer had gone into bank bankruptcy would not agree to waive discrepancies. In another c to amend the LC to correct a discrepancy. The bank, however, h financial status of its customer, the buyer, prior to issuing the LC meantime that its customer might not be able to reimburse the t to amend the LC. The court held that the issuer bank had no dut upon the request of a customer and a beneficiary. *AMF Head Spc Am. Sports Club*, 448 F. Supp. 222 (1978). For a more recent ca to amend LC, see *Leaseamerica Corp. v. Northwest Bank Duluth*,

1991).

These cases teach three important lessons. First, documents mu: there is a mistake or a problem with the documents which the L(seller/beneficiary should not ship goods until the LC has been an clear that no amendment can take place unless the issuing bank, and the seller, agree to it. UCP 500, Article 9(d). Unless the selle from the bank that the amendment to the LC has been issued, a accepted the amendment, he bears the risk that the LC will not t

Third, a prudent seller will not let the buyer take possession of tl paid under the LC. The reason should be obvious. If there are di: preventing payment of the LC, a buyer in possession of the good waive discrepancies so the seller can be paid. If the seller is not still has a contractual obligation to pay for goods, but the difficul price drop substantially, even assuming the buyer is solvent and Particularly when the goods have been shipped to a foreign coun payment can be quite costly. The buyer, knowing this, will undou lower price, if he pays at all.

To keep goods out of the buyer's possession, the seller should be of lading consigned to order of the bank. Since the marine bill of consignment to order of the bank gives the bank title to the good for by the buyer. Assuming proper payment, the bank transfers t then take the bill of lading and go pick up the goods. If payment obligation to hold the documents for the seller, or return them tc so by the seller. The buyer should not be able to get the goods w

A buyer may ask the seller to have the bill of lading made out to and to send one or more sets to the buyer within a few days of s writing a blank check. It enables the buyer to pick up the goods, with a disincentive to waive any discrepancies in documents the Given the high failure rate of initial presentations of documents u know he will have the buyer's cooperation in correcting discrepai buyer's cooperation will be more forthcoming if he cannot get po any problems with discrepancies have been resolved.

Meeting the deadlines

Every LC has three important dates: the date by which goods mu which documents must be presented, and the expiry date for the that each of these dates can be met, and should allow a large m: has been issued, if the seller learns that the date for shipping go not ship any goods until he obtains an amendment to the LC per

If an LC which calls for transport documents does not contain a c be presented, does this mean the seller can wait until the expiry

documents? Not if he wants to be paid. Article 43 of the UCP 50C
period after shipment is given in the Credit for presentation of d(
accept documents presented to them later than 21 days after sh
with the 21 day rule of the UCP 500 could easily miss this deadlii

The exporter should make sure that the expiry date of the LC pe
correction, if possible, of any mistakes in the documents. Under
documents are presented, the bank has a maximum of seven da
if there are any discrepancies. If discrepancies can be corrected,
the documents resubmitted before the expiry date of the LC. Thι
sure that the expiry date allows enough time for errors to be rec

CONCLUSION

Clients should understand that in working with LC's, it i:
good advice from the outset, to learn the rules of the gan
great care. Once mistakes have been made, too often the
costly.

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